

EXHIBIT A

ZAI 7B Fund Under the WR Grace Asbestos PD Trust

Financial Statements

Years ended December 31, 2018 and 2017

ZAI 7B Fund Under the WR Grace Asbestos PD Trust

Table of Contents

Financial Statements for the years ended December 31, 2018 and 2017

Independent Auditor's Report	1 – 2
Balance Sheets	3
Statements of Operations	4
Notes to the Financial Statements	5 – 8

14525 Highway 7
Suite 335
Minnetonka, MN 55345
Phone: (952) 934-8405 • Fax: (952) 934-5444
www.lordancamp.com



Lordan & Camp, PLLC

Chris Lordan, CPA
Certified Public Accountant

Richard A. Camp
Enrolled Agent

Independent Auditor's Report

Mr. Ed Cottingham, Trustee
ZAI 7B Fund Under the WR Grace Asbestos PD Trust
317 Wingo Way, Suite 303
Mount Pleasant, SC 29464

Report on the Financial Statements

We have audited the accompanying financial statements of the ZAI 7B Fund Under the WR Grace Asbestos PD Trust, "the Fund", which comprise the Balance Sheets as of December 31, 2018 and 2017, and related Statements of Operations for the years ended December 31, 2018 and 2017, and the related notes to the financial statements.

Management's Responsibilities for the Financial Statements

Management of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with special-purpose accounting principles appropriate for a trust operating as a Qualified Settlement Fund, formed under Internal Revenue Code Section 1.468(b). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally acceptable in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amount and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material

misstatement of the financial statements, whether due to fraud or error. In making these risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we express no such opinion. An audit also includes evaluating appropriateness of accounting policies used and the overall reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ZAI 7B Fund Under the WR Grace Asbestos PD Trust as of December 31, 2018 and 2017, and the results of operations for the years then-ended, in accordance with accounting principles appropriate for a trust operating as a Qualified Settlement Fund.

Emphasis of Matter

In a departure from Generally Accepted Accounting Principles, the Fund has elected a special-purpose basis of accounting that emphasizes the Fund Balance available to pay future claims. This basis of accounting employs accrual accounting concepts, but relieves the Fund of the requirement to evaluate and estimate claims payable, and to record claims payable as a liability. See *Note 2 – Summary of Accounting Policies*, and *Note 4 – Fund Balance* for further explanation of these elections.

Lordan & Camp PLLC

LORDAN & CAMP PLLC

Minnetonka, Minnesota

April 16, 2019

ZAI 7B Fund Under the WR Grace Asbestos PD Trust
Balance Sheets
as of December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and equivalents	2,254,392	2,304,030
Prepaid expenses	8,115	7,026
Total Current assets	<u>2,262,507</u>	<u>2,311,056</u>
Long-Term Investments		
Corporate Bonds	4,934,891	5,851,881
Municipal Bonds	14,103,390	17,628,811
Equities	7,022,480	8,130,430
Total Long-term Investments	<u>26,060,761</u>	<u>31,611,122</u>
Other assets	2,449	2,449
Total Assets	<u>28,325,717</u>	<u>33,924,627</u>
Liabilities and Fund Balance		
Current Liabilities		
Accounts Payable and Other Current Liabilities	50,396	58,644
Fund Balance	28,275,321	33,865,983
Total Liabilities and Fund Balance	<u>28,325,717</u>	<u>33,924,627</u>

ZAI 7B Fund Under the WR Grace Asbestos PD Trust
Statements of Operations
for the years ending December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Income		
Interest income	1,006,028	993,256
Dividend income	152,325	92,084
Net Gain / (Loss) on Investments	(855,071)	136,564
Total income	<u>303,282</u>	<u>1,221,904</u>
Expenses		
Trustee and Administrator fees	670,403	650,950
Taxes	31,237	26,584
Accounting and Legal Fees	533,912	8,520,703
Notice and claims processing	111,864	60,936
Other deductions	97,196	85,082
Total Expenses	<u>1,444,612</u>	<u>9,344,255</u>
Net Operating Result	<u><u>(1,141,330)</u></u>	<u><u>(8,122,351)</u></u>

ZAI 7B Fund Under the WR Grace Asbestos PD Trust
Notes to the Financial Statements
December 31, 2018 and 2017

Note 1 – Description of the Fund

The Plan of Reorganization of W.R. Grace & Company includes the formation of the WRG Asbestos PD Trust. Assets and income of the PD Trust are to be employed to satisfy claims, costs and expenses related to the property damage caused by asbestos-containing products manufactured and sold by W.R. Grace prior to its Chapter 11 bankruptcy reorganization.

The ZAI 7B Fund Under the WR Grace Asbestos PD Trust (“the Fund”) was formed to provide financial assistance to property owners who have or may have had Zonolite Attic Insulation (“ZAI”), an asbestos-containing material, in their properties. The Fund has assumed the liabilities for a portion of the cost incurred by property owners to abate the ZAI, and further holds the responsibility of developing and funding an educational program about ZAI. The Fund provides assistance with determining if ZAI is present, and provides programmatic reimbursement to property owners who remediate or remove the ZAI.

The Fund is subject to the ongoing supervision of the Zonolite Attic Insulation Trust Advisory Committee (“ZTAC”).

Note 2 – Summary of Accounting Policies

The Fund employs a special-purpose basis of accounting that emphasizes the fund balance available to pay future claims. This basis of accounting employs accrual accounting concepts, but relieves the Fund of the requirement to evaluate and estimate claims payable under accrual accounting concepts that prevail under Generally Accepted Accounting Principles. The accrual basis of accounting is required for a Qualified Settlement Fund (“QSF”) in the regulations governing QSFs as laid out in Internal Revenue Code Section 1.468(b). See ***Note 3 – Tax Status.***

Also unique to the special-purpose basis of accounting is the treatment afforded to proceeds received by the Fund, and disbursements to pay claims. Proceeds received when the Fund was established represent the initial fund balance. The receipt of additional settlement funds also increases the fund balance. Disbursements to pay claims are reductions to the fund balance.

The Fund recognizes interest and dividend income when received.

The preparation of financial statements on the accrual basis requires the use of estimates, which include assumptions that may affect the reported amounts of assets, liabilities or the changes therein. Actual results could differ from those estimates.

ZAI 7B Fund Under the WR Grace Asbestos PD Trust
Notes to the Financial Statements
December 31, 2018 and 2017

Note 3 – Tax Status

The Fund has been formed as a Qualified Settlement Fund under the Internal Revenue Code of the United States of America.

The taxable income of the Fund will differ from the accrual-based Net Operating Result due to significant differences in the treatment of certain income earned by the Fund and expenses incurred by the Fund. The differences include exclusion of municipal bond interest from taxation, disallowance of plaintiff's attorney fees as deductible tax expenses, and a limitation on the inclusion of realized capital losses in income. As such, taxable income is higher than accrual income on a permanent basis. Schedule 1 illustrates these differences since Fund inception.

Schedule 1, Cumulative book income and tax income differences

Book Net Operating Result – Income (Loss)	(\$20,414,029)
Disallowed Legal Expenses	16,343,984
Disallowed Meals & Entertainment	7,322
Non-taxable Municipal Bond Income	(2,502,450)
Capital Gain/(Loss) Differential	1,992,058
Tax Net Operating Result – Income (Loss)	<u>(\$ 4,573,115)</u>

Tax losses may also be carried forward so that taxable income which arises in subsequent tax years is offset by tax losses previously incurred. Under current rates the Fund would have a Federal tax liability equal to 37% of net taxable income.

The Fund is required to file a Form 1120-SF annually with the Internal Revenue Service. Owing to the currently-accumulated loss exceeding \$4,500,000, no tax provision is reflected in the financial statements for Federal tax liability.

The various state departments of revenue employ widely varying approaches to taxation of QSFs. The Trustee has elected to comply with revenue regulations of the South Carolina Department of Revenue by filing a non-resident trust tax return. Due to the accumulated losses from the inception of the Fund and the tax treatment afforded to non-resident trusts, there is no tax liability with the South Carolina Department of Revenue for 2018 or prior years.

The Fund is subject to the ongoing jurisdiction of the US Bankruptcy Court for the District of Delaware. Delaware Code Chapter 11, Section 1633(d) defines a QSF as a Trust, exempt from taxation.

ZAI 7B Fund Under the WR Grace Asbestos PD Trust
Notes to the Financial Statements
December 31, 2018 and 2017

Note 4 - Fund Balance

As of December 31, 2018 the Fund Balance reported by the Fund is \$28,275,321.

Schedule 2, Fund Balance as of 12/31/2018

	<u>2018</u>	<u>All years prior to 2018</u>	<u>Cumulative</u>
Settlement Funding Received	\$ 0	\$ 64,364,384	\$ 64,364,384
Claims paid	(4,449,332)	(11,225,702)	(15,675,034)
Net Operating Result	(1,141,330)	(19,272,699)	(20,414,029)
Ending Fund Balance			<u>\$ 28,275,321</u>

Management believes that the Fund Balance on December 31, 2018 is adequate to pay the claims that the Fund has been formed to settle, and provides for the Fund's expenses to administer the claims to be paid.

Note 5 - Claims Paid

Claims are paid by the Trust after careful examination and review. The evaluation of a claim is initiated with the assembly of combined paper and digital claim files. These files are used to maintain a record of contacts with claimants, including by mail, e-mail or by telephone. Files for claims that are paid include definitive proof of the presence of ZAI and the incurred costs of removal or abatement. The claims software deployed by the Trustee allows both claims processors and the Trustee to make notes on individual claims, and to retrieve digitally-recorded claim documents from the claims database. This sophisticated software also provides a platform for the Trustee to prevent abuse of the claim-in function by automating data analytics and prevents the processing of duplicate claims. Documentation of extraordinary claim payouts is also facilitated by the claims software.

Note 6 - Investments

Investments held by the Fund are stated at the lower of cost or market value. The Trustee of the Fund is charged with prudently investing the Fund's assets, in a manner consistent with the Uniform Prudent Investor Act. The Fund is limited to investing in the following:

- US Government debt securities
- Privately issued debt securities rated as Baa or higher by Moody's
- Privately issued debt securities rated as BBB by Standard and Poor's
- Investment-grade debts rated by a nationally recognized rating agency

ZAI 7B Fund Under the WR Grace Asbestos PD Trust
Notes to the Financial Statements
December 31, 2018 and 2017

- Diversified equity portfolios that track broad market indexes such as the Standard & Poor's 500 Index, among others
- Equity holdings that do not exceed 5% of the equity in the entity

The Fund held \$28,315,153 and \$33,915,152 in investable assets as of December 31, 2018 and 2017, as follows:

Schedule 3, Cash and Long-Term Investments as of 12/31/2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash and equivalents	\$ 2,254,392	\$ 2,304,030
Corporate Bonds	4,934,891	5,851,881
Municipal Bonds	14,103,390	17,628,811
Equity Securities	7,022,480	8,130,430
Total investable assets	<u>\$ 28,315,153</u>	<u>\$ 33,915,152</u>

The investments held by the Fund are required to comply with the Uniform Prudent Investor Act. This act emphasizes the following attributes:

- Evaluating the investment portfolio as a whole, while not focusing on the performance of individual investments
- Observing the required duty to diversify the investment portfolio
- Evaluating individual investments in the context of the purpose of the Fund and the beneficiaries' needs
- Permissibility of delegating investment management to a third-party

The investments held by the Fund as of December 31, 2018 and 2017 comply with the objectives of the Uniform Prudent Investor Act, and the Trustee's limitations on investment choices delineated in the WRG Asbestos PD Trust.

The investments held by the Fund as of December 31, 2018 and 2017 include realized gains, and realized and unrealized losses.

Note 7 - Subsequent Events

Subsequent events have been evaluated through April 16, 2019. No subsequent events have occurred that require disclosure, or modification to the financial statements.